

# **CITY OF MADRID**

**Independent Auditors' Reports  
Basic Financial Statements  
Supplementary and Other Information  
Schedule of Findings**

**June 30, 2014**

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# CITY OF MADRID

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Jeff Gibbons	Mayor	Jan 2016
Donald Lincoln	Mayor Pro Tem	Jan 2014
Val Chapman	Council Member	Jan 2014
Steve Burich	Council Member	Jan 2014
Dave Cook	Council Member	Jan 2016
Lane Shaver	Council Member	Jan 2016
Todd Kilzer	City Administrator	Indefinite
Donald Fatka	City Treasurer	Indefinite
John Jordan	City Attorney	Indefinite
<b>(After January 2014)</b>		
Jeff Gibbons	Mayor	Jan 2016
Lane Shaver	Mayor Pro Tem	Jan 2016
Dave Cook	Council Member	Jan 2016
Steve Burich	Council Member	Jan 2018
Val Chapman	Council Member	Jan 2018
Kurt Kruse	Council Member	Jan 2018
Todd Kilzer	City Administrator	Indefinite
Donald Fatka	City Treasurer	Indefinite
John Jordan	City Attorney	Indefinite



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## **Basis of Accounting**

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 23 through 25, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2014 on our consideration of the City of Madrid's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Madrid's internal control over financial reporting and compliance.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
October 17, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Madrid provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 67.5%, or approximately \$4,103,000, from fiscal year 2013 to fiscal year 2014. Property tax increased approximately \$69,000 while bond proceeds and capital grants, contributions and restricted interest decreased approximately \$2,650,000 and \$1,505,000, respectively.
- Disbursements of the City's governmental activities decreased 40.4%, or approximately \$2,066,000, in fiscal year 2014 from fiscal year 2013. Culture and recreation, community and economic development, and capital projects disbursements decreased approximately \$32,000, \$45,000, and \$1,996,000, respectively.
- The City's total cash basis net position decreased 32.9%, or approximately \$1,207,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased approximately \$1,071,000 and the cash basis net position of the business type activities decreased approximately \$136,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Emergency, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased significantly from a year ago, decreasing from approximately \$2,807,000 to approximately \$1,736,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities			
		Year ended June 30,	
		2014	2013
Receipts:			
Program receipts:			
Charges for service	\$	223,079	272,074
Operating grants, contributions and restricted interest		346,216	330,923
Capital grants, contributions and restricted interest		145,097	1,650,124
General receipts:			
Property tax		928,177	859,546
Tax increment financing		104,288	106,304
Other city tax		216,464	198,746
Special assessments		4,365	7,235
Unrestricted interest on investments		4,021	2,462
Bond proceeds		-	2,650,000
Other general receipts		5,220	2,870
Total receipts		<u>1,976,927</u>	<u>6,080,284</u>
Disbursements:			
Public safety		326,175	316,305
Public works		444,520	432,110
Health and social services		3,910	4,160
Culture and recreation		255,779	287,767
Community and economic development		28,205	73,132
General government		189,003	167,294
Debt service		396,783	433,087
Capital projects		<u>1,403,416</u>	<u>3,399,615</u>
Total disbursements		<u>3,047,791</u>	<u>5,113,470</u>
Change in cash basis net position		(1,070,864)	966,814
Cash basis net position beginning of year		<u>2,807,191</u>	<u>1,840,377</u>
Cash basis net position end of year	\$	<u>1,736,327</u>	<u>2,807,191</u>

The City's total receipts for governmental activities decreased 67.5%, or approximately \$4,103,000. The total cost of all programs and services decreased approximately \$2,066,000, or 40.4%, with no new programs added this year. The decrease in receipts was primarily the result of a decrease in bond proceeds and capital grants, contributions and restricted interest. The City received all of the bond proceeds and most of the grant income for their drainage canal and sanitary sewer projects in the prior fiscal year when the majority of the work was completed; hence, the primary reason for the decrease in disbursements as well.

Property tax rates for fiscal year 2014 remained fairly constant, but the City's property tax receipts increased approximately \$69,000 from the prior year due to the City's total assessed property valuation increase. Based on a slight increase in property tax rates and increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$40,000 next year.



The cost of all governmental activities this year was approximately \$3,048,000 compared to approximately \$5,113,000 last year. However, as shown in the Statement of Activities and Net Position on pages 10 – 11, the amount taxpayers ultimately financed for these activities was approximately \$2,333,000 because some of the cost was paid by those directly benefited from the programs (\$223,079) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$491,313). The City paid for the remaining “public benefit” portion of governmental activities with property taxes (some of which could only be used for certain programs) and with other receipts, such as interest and other general receipts. Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2014 from approximately \$2,253,000 to approximately \$714,000.

Changes in Cash Basis Net Position of Business Type Activities			
		Year ended June 30,	
		2014	2013
Receipts:			
Program receipts:			
Charges for service:			
Water	\$	383,267	382,420
Sewer		261,809	255,721
General receipts:			
Unrestricted interest on investments		695	1,198
Other general receipts		48,622	12,689
Total receipts		<u>694,393</u>	<u>652,028</u>
Disbursements:			
Water		562,309	376,115
Sewer		267,864	145,700
Total disbursements		<u>830,173</u>	<u>521,815</u>
Change in cash basis net position		(135,780)	130,213
Cash basis net position beginning of year		<u>856,610</u>	<u>726,397</u>
Cash basis net position end of year	\$	<u>720,830</u>	<u>856,610</u>

Total business type activities receipts for the fiscal year were approximately \$694,000 compared to approximately \$652,000 last year. The slight increase was primarily due to an increase in water and sewer usage during the year and an increase in other general receipts. Total disbursements for the fiscal year increased 59.1% to approximately \$830,000. The increase was primarily due to the repayment of water and sewer bonds as well as the upgrade to the water meter reading system. The cash balance of business type activities decreased approximately \$136,000 from the prior year.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$1,736,327, a decrease of \$1,070,864 from last year’s total of \$2,807,191. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$165,130 from the prior year to \$872,600. This is mainly due to an increase in property tax revenue and decrease in expenses related to community and economic development.
- The Special Revenue, Road Use Tax Fund cash balance increased \$53,064 to \$283,756. This increase is primarily the result of more operating revenue compared to the prior year.

- The Special Revenue, Employee Benefits Fund cash balance decreased \$24,319 to \$10,368 due to no funds being transferred in from the general fund.
- The Special Revenue, Emergency Fund cash balance remained virtually unchanged compared to the prior year.
- The Debt Service Fund cash balance decreased \$4,008 due to fewer funds being transferred into the fund.
- The Capital Projects Fund cash balance decreased \$1,258,319 to \$510,371 during the fiscal year. The decrease is primarily a result of the completion of several major capital projects during the year; however, all of the bond proceeds and grant income for the projects were received in the prior year.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$139,874 to \$244,265. This is a result of disbursements exceeding revenues primarily due to bond payments.
- The Enterprise, Sewer Fund cash balance remained virtually unchanged compared to the prior year.

#### BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The budget amendment was approved on April 21, 2014, and included a decrease of \$200,565 to revenues and an increase of \$999,377 to disbursements. The amendment was mainly the result of more capital project work being done than planned.

Even with the budget amendment, the City exceeded amounts budgeted in the business type functions for the year ended June 30, 2014.

#### DEBT ADMINISTRATION

At June 30, 2014, the City had \$5,307,974 in bonds and other long-term debt outstanding, compared to \$5,680,750 last year, as shown below.

	Outstanding Debt at Year-End		
	June 30,		
	2014	2013	
General obligation bonds and note	\$ 3,637,974	3,930,750	
Revenue bonds	<u>1,670,000</u>	<u>1,750,000</u>	
Total	\$ <u>5,307,974</u>	<u>5,680,750</u>	

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,637,974 is below its constitutional debt limit of \$4,929,670.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees charged for various City activities.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Kilzer, City Administrator, 304 S. Water Street, Madrid, Iowa 50156.

**CITY OF MADRID**  
**Cash Basis Statement of Activities and Net Position**  
**As of and for the year ended June 30, 2014**

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Governmental activities:</b>				
Public safety	\$ 326,175	228	43,766	-
Public works	444,520	159,012	253,929	-
Health and social services	3,910	5,471	-	-
Culture and recreation	255,779	43,639	48,521	-
Community and economic development	28,205	-	-	-
General government	189,003	14,729	-	-
Debt service	396,783	-	-	-
Capital projects	1,403,416	-	-	145,097
Total governmental activities	3,047,791	223,079	346,216	145,097
<b>Business type activities:</b>				
Water	562,309	383,267	-	-
Sewer	267,864	261,809	-	-
Total business type activities	830,173	645,076	-	-
<b>Total</b>	<b>\$ 3,877,964</b>	<b>868,155</b>	<b>346,216</b>	<b>145,097</b>
<b>General receipts:</b>				
Property tax levied for:				
General purposes				
Debt service				
Employee benefits				
Emergency				
Tax increment financing				
Other city tax				
Unrestricted interest on investments				
Special assessments				
Sale of capital assets				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Expendable:				
Streets				
Employee benefits				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(282,181)	-	(282,181)
(31,579)	-	(31,579)
1,561	-	1,561
(163,619)	-	(163,619)
(28,205)	-	(28,205)
(174,274)	-	(174,274)
(396,783)	-	(396,783)
(1,258,319)	-	(1,258,319)
(2,333,399)	-	(2,333,399)
-	(179,042)	(179,042)
-	(6,055)	(6,055)
-	(185,097)	(185,097)
(2,333,399)	(185,097)	(2,518,496)
510,476	-	510,476
261,144	-	261,144
142,750	-	142,750
13,807	-	13,807
104,288	-	104,288
216,464	-	216,464
4,021	695	4,716
4,365	305	4,670
1,551	-	1,551
3,669	48,317	51,986
1,262,535	49,317	1,311,852
(1,070,864)	(135,780)	(1,206,644)
2,807,191	856,610	3,663,801
\$ 1,736,327	720,830	2,457,157
\$ 283,756	-	283,756
10,368	-	10,368
584	111,140	111,724
510,371	-	510,371
58,648	-	58,648
872,600	609,690	1,482,290
\$ 1,736,327	720,830	2,457,157

**CITY OF MADRID**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the year ended June 30, 2014**

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
<b>Receipts:</b>				
Property tax	\$ 510,476	-	142,750	13,807
Tax increment financing	-	-	-	-
Other city tax	206,471	-	3,538	342
Licenses and permits	14,729	-	-	-
Use of money and property	6,046	-	-	-
Intergovernmental	41,561	253,929	-	-
Charges for service	206,096	-	-	-
Special assessments	3,440	-	-	-
Miscellaneous	54,611	-	-	-
Total receipts	1,043,430	253,929	146,288	14,149
<b>Disbursements:</b>				
Operating:				
Public safety	249,937	-	76,238	-
Public works	194,161	200,865	49,494	-
Health and social services	3,910	-	-	-
Culture and recreation	238,160	-	15,383	-
Community and economic development	28,205	-	-	-
General government	159,511	-	29,492	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	873,884	200,865	170,607	-
Excess (deficiency) of receipts over (under) disbursements	169,546	53,064	(24,319)	14,149
<b>Other financing sources (uses):</b>				
Sale of capital assets	1,551	-	-	-
Operating transfers in	14,033	-	-	-
Operating transfers out	(20,000)	-	-	(14,033)
Total other financing sources (uses)	(4,416)	-	-	(14,033)
Change in cash balances	165,130	53,064	(24,319)	116
Cash balances beginning of year	707,470	230,692	34,687	13,257
Cash balances end of year	\$ 872,600	283,756	10,368	13,373

Debt Service	Capital Projects	Nonmajor	Total
261,144	-	-	928,177
-	-	104,288	104,288
6,113	-	-	216,464
-	-	-	14,729
-	-	13	6,059
-	145,097	-	440,587
-	-	-	206,096
925	-	-	4,365
-	-	-	54,611
268,182	145,097	104,301	1,975,376
-	-	-	326,175
-	-	-	444,520
-	-	-	3,910
-	-	2,236	255,779
-	-	-	28,205
-	-	-	189,003
396,783	-	-	396,783
-	1,403,416	-	1,403,416
396,783	1,403,416	2,236	3,047,791
(128,601)	(1,258,319)	102,065	(1,072,415)
-	-	-	1,551
124,593	-	-	138,626
-	-	(104,593)	(138,626)
124,593	-	(104,593)	1,551
(4,008)	(1,258,319)	(2,528)	(1,070,864)
4,592	1,768,690	47,803	2,807,191
584	510,371	45,275	1,736,327

**CITY OF MADRID**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Governmental Funds (Continued)**  
**As of and for the year ended June 30, 2014**

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Streets	\$ -	283,756	-	-
Employee benefits	-	-	10,368	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	13,373
Assigned for:				
Fire equipment	57,784	-	-	-
Park	11,500	-	-	-
Unassigned	803,316	-	-	-
Total cash basis fund balances	\$ 872,600	283,756	10,368	13,373



Debt Service	Capital Projects	Nonmajor	Total
-	-	-	283,756
-	-	-	10,368
584	-	-	584
-	510,371	-	510,371
-	-	45,275	58,648
-	-	-	57,784
-	-	-	11,500
-	-	-	803,316
584	510,371	45,275	1,736,327

**CITY OF MADRID**  
**Statement of Cash Receipts, Disbursements**  
**and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2014**

Exhibit C

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 383,267	261,809	645,076
Miscellaneous	38,763	9,859	48,622
Total operating receipts	<u>422,030</u>	<u>271,668</u>	<u>693,698</u>
Operating disbursements:			
Business type activities	<u>512,682</u>	<u>191,160</u>	<u>703,842</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(90,652)	80,508	(10,144)
Non-operating receipts (disbursements):			
Interest on investments	405	290	695
Debt service	(49,627)	(76,704)	(126,331)
Net non-operating receipts (disbursements)	<u>(49,222)</u>	<u>(76,414)</u>	<u>(125,636)</u>
Change in cash balances	(139,874)	4,094	(135,780)
Cash balances beginning of year	<u>384,139</u>	<u>472,471</u>	<u>856,610</u>
Cash balances end of year	<u>\$ 244,265</u>	<u>476,565</u>	<u>720,830</u>
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ 53,875	57,265	111,140
Unrestricted	<u>190,390</u>	<u>419,300</u>	<u>609,690</u>
Total cash basis fund balances	<u>\$ 244,265</u>	<u>476,565</u>	<u>720,830</u>

# **CITY OF MADRID**

## **Notes to Financial Statements**

### **June 30, 2014**

#### **(1) Summary of Significant Accounting Policies**

The City of Madrid is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

##### **A. Reporting Entity**

For financial reporting purposes, the City of Madrid has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Madrid has no component units which meet the Governmental Accounting Standards Board criteria.

##### **Jointly Governed Organizations**

The City participates in several jointly governed organizations that provides goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Boone County Landfill Commission, Emergency Management Board, Madrid Historical Society Board, Lowery Trust Board, Central Iowa Regional Housing Authority, and the Boone County 911 Board. The City also has a cost-sharing agreement with the Boone County Sheriff Department for communication costs.

##### **B. Basis of Presentation**

**Government-wide Financial Statement** – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014**

**(1) Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (Continued)**

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Emergency Fund is used to account for property taxes levied to pay for emergency purposes.

The Employee Benefits Fund is used to account for property taxes levied to pay employee taxes and benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014**

**(1) Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (Continued)**

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Madrid maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

# CITY OF MADRID

## Notes to Financial Statements (Continued)

### June 30, 2014

#### (1) Summary of Significant Accounting Policies (Continued)

##### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the business type activities function.

#### (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the City had the following investment:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$3,444</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

#### (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and note and revenue bonds are as follows:

Year Ending <u>June 30</u>	General Obligation Bonds		General Obligation Note		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 295,000	57,418	22,594	5,219	85,000	26,140	402,594	88,777
2016	295,000	55,500	22,594	4,486	90,000	24,645	407,594	84,631
2017	290,000	53,141	22,594	3,728	90,000	23,095	402,594	79,964
2018	280,000	49,950	22,594	2,982	90,000	21,545	392,594	74,477
2019	280,000	46,661	22,594	2,237	90,000	31,495	392,594	80,393
2020-2024	1,490,000	155,676	45,004	2,241	485,000	131,302	2,020,004	289,219
2025-2029	550,000	22,333	-	-	450,000	91,128	1,000,000	113,461
2030-2033	-	-	-	-	290,000	25,737	290,000	25,737
Total	<u>\$ 3,480,000</u>	<u>440,679</u>	<u>157,974</u>	<u>20,893</u>	<u>1,670,000</u>	<u>375,087</u>	<u>5,307,974</u>	<u>836,659</u>

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014**

**(3) Bonds and Notes Payable (Continued)**

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$590,000 of water revenue bonds issued in June 2013. Proceeds from the bonds provided financing for water main improvements. The bonds are payable solely from water customer net receipts and are payable through 2027. The total principal and interest remaining to be paid on the bonds is \$655,500. For the current year, principal and interest paid and total customer net receipts were \$49,627 and \$(90,652), respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,160,000 of sewer revenue bonds issued in June 2013. Proceeds from the bonds provided financing for improvements to the wastewater treatment facility. The bonds are payable solely from sewer customer net receipts and are payable through 2033. Annual principal and interest payments on the notes are expected to require less than 40% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,389,587. For the current year, principal and interest paid and total customer net receipts were \$76,414 and \$191,160, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$53,224, \$50,677, and \$47,912 respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 10 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014**

**(5) Other Postemployment Benefits (OPEB) (Continued)**

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$443 for single coverage and \$1,372 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed 100% of the plan membership at a cost of \$101,233.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 16,641</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 104,593
	General	<u>20,000</u>
		124,593
General	Special Revenue:	
	Emergency	<u>14,033</u>
Total		<u>\$ 138,626</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**CITY OF MADRID**  
**Notes to Financial Statements (Continued)**  
**June 30, 2014**

**(9) Related Party Transactions**

- The City had business transactions between the City and City officials totaling \$1,065 during the year ended June 30, 2014.

**(10) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

**(11) Subsequent Events**

The City has evaluated all subsequent events through October 17, 2014, the date the financial statements were available to be issued.

**CITY OF MADRID**  
**Budgetary Comparison Schedule of Receipts, Disbursements,**  
**and Changes in Balances-Budget and Actual (Cash Basis)**  
**All Governmental Funds and Proprietary Funds**  
**Other Information**  
**Year ended June 30, 2014**

	Governmental Funds Actual	Proprietary Funds Actual
<b>Receipts:</b>		
Property tax	\$ 928,177	-
Tax increment financing	104,288	-
Other city tax	216,464	-
Licenses and permits	14,729	-
Use of money and property	6,059	695
Intergovernmental	440,587	-
Charges for service	206,096	645,076
Special assessments	4,365	-
Miscellaneous	54,611	48,622
Total receipts	<u>1,975,376</u>	<u>694,393</u>
<b>Disbursements:</b>		
Public safety	326,175	-
Public works	444,520	-
Health and social services	3,910	-
Culture and recreation	255,779	-
Community and economic development	28,205	-
General government	189,003	-
Debt service	396,783	-
Capital projects	1,403,416	-
Business type activities	-	830,173
Total disbursements	<u>3,047,791</u>	<u>830,173</u>
Excess (deficiency) of receipts over (under) disbursements	(1,072,415)	(135,780)
Other financing sources, net	<u>1,551</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,070,864)	(135,780)
Balances beginning of year	<u>2,807,191</u>	<u>856,610</u>
Balances end of year	<u>\$ 1,736,327</u>	<u>720,830</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
928,177	924,885	924,885	3,292
104,288	105,775	105,775	(1,487)
216,464	195,790	202,790	13,674
14,729	11,350	12,550	2,179
6,754	16,200	6,000	754
440,587	749,075	458,520	(17,933)
851,172	854,510	880,500	(29,328)
4,365	3,000	3,000	1,365
103,233	38,850	104,850	(1,617)
2,669,769	2,899,435	2,698,870	(29,101)
326,175	343,070	333,220	7,045
444,520	479,265	474,115	29,595
3,910	4,500	3,910	-
255,779	219,595	262,060	6,281
28,205	29,500	29,500	1,295
189,003	166,015	189,170	167
396,783	399,775	524,092	127,309
1,403,416	733,245	1,426,400	22,984
830,173	507,965	639,840	(190,333)
3,877,964	2,882,930	3,882,307	4,343
(1,208,195)	16,505	(1,183,437)	(24,758)
1,551	-	-	1,551
(1,206,644)	16,505	(1,183,437)	(23,207)
3,663,801	2,772,034	2,772,034	891,767
2,457,157	2,788,539	1,588,597	868,560

**CITY OF MADRID**  
**Notes to Other Information – Budgetary Reporting**  
**June 30, 2014**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$999,377. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amount budgeted in business type activities function.

**CITY OF MADRID**  
**Schedule of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the year ended June 30, 2014**

	Special Revenue			
	Boyd Library	Helms Estate	Tax Increment Financing	Total
<b>Receipts:</b>				
Tax increment financing	\$ -	-	104,288	104,288
Use of money and property	9	4	-	13
Total receipts	9	4	104,288	104,301
<b>Disbursements:</b>				
Operating:				
Culture and recreation	126	2,110	-	2,236
Total disbursements	126	2,110	-	2,236
<b>Excess (deficiency) of receipts over     (under) disbursements</b>	(117)	(2,106)	104,288	102,065
<b>Other financing uses:</b>				
Operating transfers out	-	-	(104,593)	(104,593)
<b>Change in cash balances</b>	(117)	(2,106)	(305)	(2,528)
<b>Cash balances beginning of year</b>	28,788	18,710	305	47,803
<b>Cash balances end of year</b>	\$ 28,671	16,604	-	45,275
<b>Cash Basis Fund Balances</b>				
Restricted for other purposes	\$ 28,671	16,604	-	45,275
Total cash basis fund balances	\$ 28,671	16,604	-	45,275

**CITY OF MADRID**  
**Schedule of Indebtedness**  
**Year ended June 30, 2014**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Corporate purpose and refinancing	Apr 15, 2008	2.50 - 4.25 %	\$ 2,140,000
Fire truck acquisition	Jan 26, 2011	3.30	180,750
Corporate purpose and refinancing	Mar 27, 2012	0.35 - 2.55	2,925,000
Corporate purpose and refinancing	Jun 4, 2013	1.10 - 2.20	900,000
Total			
Revenue bonds:			
Sewer	Jun 4, 2013	1.10 - 3.55 %	\$ 1,160,000
Water	Jun 4, 2013	2.50	590,000
Total			

## Schedule 2

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	170,000	-	170,000	-	51,005	-
	180,750	-	22,776	157,974	5,783	-
	2,680,000	-	100,000	2,580,000	40,725	-
	900,000	-	-	900,000	17,099	-
\$	3,930,750	-	292,776	3,637,974	114,612	-
\$	1,160,000	-	45,000	1,115,000	31,704	-
	590,000	-	35,000	555,000	14,627	-
\$	1,750,000	-	80,000	1,670,000	46,331	-

**CITY OF MADRID**  
**Bond and Note Maturities**  
**June 30, 2014**

Schedule 3

Year Ending June 30,	General Obligation Bonds					General Obligation Note		
	Corporate Purpose and Refinancing		Corporate Purpose and Refinancing			Fire Truck Acquisition		
	Issued Mar 27, 2012		Issued Jun 4, 2013			Issued Jan 26, 2011		
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount	Total
2015	0.65 %	\$ 295,000	1.10 %	\$ -		3.30 %	\$ 22,594	317,594
2016	0.80	295,000	1.10	-		3.30	22,594	317,594
2017	1.10	275,000	1.10	15,000		3.30	22,594	312,594
2018	1.20	210,000	1.10	70,000		3.30	22,594	302,594
2019	1.80	220,000	1.10	60,000		3.30	22,594	302,594
2020	1.80	225,000	1.95	65,000		3.30	22,593	312,593
2021	1.80	230,000	1.95	65,000		3.30	22,411	317,411
2022	1.80	230,000	1.95	70,000	-	-	-	300,000
2023	2.10	115,000	1.95	185,000	-	-	-	300,000
2024	2.25	120,000	2.20	185,000	-	-	-	305,000
2025	2.35	120,000	2.20	185,000	-	-	-	305,000
2026	2.45	120,000	-	-	-	-	-	120,000
2027	2.55	125,000	-	-	-	-	-	125,000
Total		\$ 2,580,000		\$ 900,000		\$ 157,974		3,637,974

Year Ending June 30,	Revenue Bonds					Total
	Sewer		Water			
	Issued Jun 4, 2013		Issued Jun 4, 2013			
	Interest Rate	Amount	Interest Rate	Amount		
2015	1.10 %	\$ 45,000	2.50 %	\$ 40,000		85,000
2016	1.10	50,000	2.50	40,000		90,000
2017	1.10	50,000	2.50	40,000		90,000
2018	1.10	50,000	2.50	40,000		90,000
2019	2.35	50,000	2.50	40,000		90,000
2020	2.35	50,000	2.50	40,000		90,000
2021	2.35	55,000	2.50	40,000		95,000
2022	2.35	55,000	2.50	45,000		100,000
2023	2.35	55,000	2.50	45,000		100,000
2024	3.50	55,000	2.50	45,000		100,000
2025	3.50	60,000	2.50	45,000		105,000
2026	3.50	60,000	2.50	45,000		105,000
2027	3.50	60,000	2.50	50,000		110,000
2028-2033	3.50-3.55	420,000	-	-		420,000
Total		\$ 1,115,000		\$ 555,000		1,670,000



**CITY OF MADRID**  
**Schedule of Receipts By Source and Disbursements by Function-**  
**All Governmental Funds**  
**For the Last Ten Years**

	2014	2013	2012	2011
<b>Receipts:</b>				
Property tax	\$ 928,177	859,546	788,247	759,077
Tax increment financing	104,288	106,304	104,930	86,754
Other city tax	216,464	198,746	210,326	189,546
Licenses and permits	14,729	63,556	9,143	17,358
Use of money and property	6,059	4,101	7,432	11,959
Intergovernmental	440,587	1,936,752	533,370	462,546
Charges for services	206,096	206,735	200,046	199,009
Special assessments	4,365	7,235	3,317	4,865
Miscellaneous	54,611	47,309	67,921	79,273
<b>Total</b>	<b>\$ 1,975,376</b>	<b>3,430,284</b>	<b>1,924,732</b>	<b>1,810,387</b>
<b>Disbursements:</b>				
Operating:				
Public safety	\$ 326,175	316,305	319,403	468,790
Public works	444,520	432,110	472,242	409,121
Health and social services	3,910	4,160	4,000	4,000
Culture and recreation	255,779	287,767	229,810	221,489
Community and economic development	28,205	73,132	25,247	35,404
General government	189,003	167,294	167,207	139,870
Debt service	396,783	433,087	397,472	355,335
Capital projects	1,403,416	3,399,615	607,254	152,112
<b>Total</b>	<b>\$ 3,047,791</b>	<b>5,113,470</b>	<b>2,222,635</b>	<b>1,786,121</b>

2010	2009	2008	2007	2006	2005
740,006	681,460	630,677	588,149	472,709	452,153
42,580	-	-	-	-	-
184,018	196,485	190,788	180,565	202,013	183,946
14,429	13,975	9,941	12,364	16,629	11,201
12,488	15,304	45,888	34,033	23,586	12,134
407,747	332,053	239,585	425,411	502,833	248,810
197,658	203,925	184,450	169,381	175,502	173,812
11,048	7,717	5,449	13,172	18,275	18,499
174,843	137,522	78,354	39,638	55,900	72,558
<u>1,784,817</u>	<u>1,588,441</u>	<u>1,385,132</u>	<u>1,462,713</u>	<u>1,467,447</u>	<u>1,173,113</u>
313,050	279,988	559,301	328,991	305,736	301,401
426,480	416,309	378,406	373,658	405,484	379,831
4,000	4,000	4,049	3,802	3,600	3,606
372,128	285,361	215,486	240,583	197,725	185,677
81,105	57,774	29,854	22,210	62,403	15,570
135,435	134,075	158,746	147,211	145,762	154,092
362,222	356,042	2,410,641	289,398	267,243	264,385
95,757	48,617	1,173,743	217,010	369,431	465,860
<u>1,790,177</u>	<u>1,582,166</u>	<u>4,930,226</u>	<u>1,622,863</u>	<u>1,757,384</u>	<u>1,770,422</u>



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted accounting standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 17, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Madrid's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madrid's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Madrid's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Madrid's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-14 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-14 to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madrid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Madrid's Responses to Findings

The City of Madrid's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Madrid's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Madrid during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
October 17, 2014

**CITY OF MADRID**  
**Schedule of Findings**  
**Year ended June 30, 2014**

**Part I: Summary of the Independent Auditors' Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CITY OF MADRID**  
**Schedule of Findings (Continued)**  
**Year ended June 30, 2014**

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-14 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We continue to segregate duties as much as possible with the limited staff and resources we have.

Conclusion – Response accepted.

II-B-14 Bank Reconciliations – Bank accounts are reconciled monthly, however, they are not being reconciled back to the City's fund balance resulting in outstanding discrepancies between actual cash balances and fund balances within the system.

Recommendation – To improve financial accountability and control, fund balances should be reconciled to the bank balances monthly and variances resolved on a timely basis.

Response – Internal fund balances will be reconciled with bank balances on a monthly basis.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

# CITY OF MADRID

## Schedule of Findings (Continued)

### Year ended June 30, 2014

**Part III: Other Findings Related to Required Statutory Reporting:**

III-A-14 Certified Budget – The Council amended the budget in April 2014, however, disbursements exceeded the amounts budgeted in the business type activities function during the year ended June 30, 2014. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The certified budget will be amended in a timely manner.

Conclusion – Response accepted.

III-B-14 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-14 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kurt Kruse, City Council Member, Owner of PC Not Working	Services	\$ 88
Lane Shaver, City Council Member, Owner, Mid National Graphics, Inc	Signage	\$ 977

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with both City Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

III-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

**CITY OF MADRID**  
**Schedule of Findings (Continued)**  
**Year ended June 30, 2014**

**Part IV: Other Findings Related to Required Statutory Reporting (Continued):**

- III-F-14 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

The City Council went into closed session on July 1, 2013 and November 5, 2013. The minutes record did not document the reason for the closed session by reference to a specific Code of Iowa exemption nor document a roll call vote as required by Chapter 21.5 of the Code of Iowa.

Although minutes of the City Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not include total receipts in the published minutes.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes and total receipts as required.

Response – Closed session portions of a Council meeting will have their declared reason as required and a roll call vote will be taken and documented. Receipts will be published as part of the City/Bank Reconciliation once that procedure is reinstated.

Conclusion – Response accepted.

- III-G-14 Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has received and continues to hold shares of common stock as a donation for the new library. The holding of common stock is in violation of Chapter 12B of the Code of Iowa.

Recommendation – The City should dispose of the stock in order to comply with Chapter 12B of the Code of Iowa.

Response – The IBM stock will be sold.

Conclusion – Response accepted.

- III-H-14 Transfers – The City approved transfers to be made during the year, however the transfers were not made before year end. Also, when the transfers were made, two of them were for a different amount than what was approved.

Recommendation – The City should make all transfers on a timely basis and for the amounts that were approved.

Response – Transfers will be done for the correct amount and in a timely manner.

Conclusion – Response accepted.



## **CITY OF MADRID**

**Staff**

**This audit was performed by:**

**Bowman & Miller, P.C.  
Certified Public Accountants  
Marshalltown, IA 50158**

**Personnel:**

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